

May 31, 2024

ADVICE LETTER NO. 1446

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

California-American Water Company ("California American Water") (U210W) hereby submits for review this advice letter, including the following tariff sheets, attached hereto, which are applicable to all its districts:

Purpose and Background:

In Decision 23-04-007, dated April 6, 2023, the CPUC approved the purchase by California American Water of substantially all of the water utility assets of Bass Lake Water Co., a California corporation ("Bass Lake"). Bass Lake has an outstanding Drinking Water State Revolving Fund loan ("SRF Loan") issued by the State Water Resources Control Board ("SWRCB"). Bass Lake and California American Water have submitted a joint request to the SWRCB that the SRF Loan be assigned to, and assumed by, California American Water.

The purpose of this advice letter is to confirm the CPUC's approval of the assignment to, and assumption by, California American Water of Bass Lake's outstanding SRF Loan, the dedicated source of revenue, and security for the SRF Loan.

1. CPUC's Approval of Bass Lake's Outstanding SRF Loan and Related Surcharge

On January 13, 2022, the CPUC approved Resolution (Res.) W-5248, which authorized Bass Lake to borrow \$8,119,082, in addition to the \$6,611,800 previously authorized in Res. W-5167 on May 31, 2018, under the Drinking Water State Revolving Fund ("DWSRF") Program to fund construction costs to complete a new water system surface water treatment plant necessary to meet the standards for surface water treatment.

With Res. W-5248, the CPUC further authorized Bass Lake to place in effect six (6) months prior to completion of the project, a surcharge on existing water rates for amortizing the \$12,730,882 (\$8,119,082 plus \$4,611,800) SRF Loan and accumulating a reserve fund equal to one year's debt service.

Res. W-5248 and Res. W-5167 also state that Bass Lake may encumber utility assets to secure the loan.

2. CPUC's Approval of California American Water's Purchase of Bass Lake Water Utility Assets, Including Addition of Bass Lake Service Area Rates

On April 10, 2023, the CPUC issued Decision 23-04-007 authorizing California American Water to purchase substantially all of Bass Lake's water utility assets. Ordering Paragraph 6 states, "Within 30 days from receipt of its operating permit, [California American Water] shall file a Tier 1 Advice Letter to expand its Certificate of Public Convenience and Necessity to include and add the Bass Lake Water Company service area and rates to its tariffs." Ordering Paragraph 12 states, "Until [California American Water] receives a final decision in

its 2024 general rate case proceeding, the rates in Bass Lake service area shall remain in effect.”

3. California American Water and Bass Lake Joint Request to SWRCB that Bass Lake’s Outstanding SRF Loan be Assigned To, and Assumed By, California American Water

The funding agreement for the SRF Loan is Construction Loan Agreement No. SWRCB D1902006, executed on October 8, 2019 (as amended, the “Loan Agreement”), by and between the SWRCB and Bass Lake, with respect to Project No. 2010003-003C (Willow Creek Surface Water Treatment Plant).

Pursuant to Article B.2.7 of the Loan Agreement, Bass Lake granted the SWRCB a continuing security interest in certain Bass Lake assets (the “Bass Lake Collateral”).

Article C.3.4 of the Loan Agreement permits the assignment of the Loan Agreement with the consent of the SWRCB in the form of an amendment to the Loan Agreement. By letter dated April 18, 2024, Bass Lake and California American Water have jointly submitted a request to the SWRCB that the SRF Loan be assigned to, and assumed by, California American Water (“Joint Request”).

In the Joint Request, California American Water required certain amendments to the Loan Agreement as a condition to its assumption of the SRF Loan, including revised source of payment and security obligations under the Loan Agreement such that they apply only to the Bass Lake system and Bass Lake assets being acquired by California American Water.

For example, the sources for payments on the SRF Loan would be limited to “Net Revenues” of the Bass Lake system and the “Water Rate Surcharge” on Bass Lake customers, including service fees for new service, authorized by the CPUC in Res. W-5167 and Res. W-5248.

As another example, the SWRCB would be granted a security interest by California American Water in certain “Collateral” including the Water Rate Surcharge, the account(s) held pursuant to the Fiscal Services and Deposit Account Control Agreement and Deposit Account Maintenance Agreement required under the Loan Agreement, the fixtures financed by the Loan Agreement, located at 54335 North Shore Road (Road 432), Bass Lake, CA 93604, and all proceeds from the foregoing Collateral.

4. The Amendments to the Loan Agreement As Stated In the Joint Request Are Necessary to Comply with California American Water’s Existing Indenture

These requested amendments to the Loan Agreement are necessary for consistency with the terms of California American Water’s First Mortgage Bond Indenture, dated as of October 1, 1969, as amended and supplemented to date (the “Indenture”) which requires California American Water to pledge substantially all of its assets to First Union National Bank, as successor in interest to Bank of America National Trust and Savings Association, as trustee under the Indenture (the “Indenture Trustee”), in order to secure the payment of principal and interest on California American Water’s publicly traded bonds. The Indenture

specifically excepts cash on hand and in bank accounts from its lien, so that the Indenture's security interest will not attach to the deposit accounts required by the Loan Agreement. The Indenture also stipulates that after acquired property of California American Water (such as Bass Lake's assets) will remain subject to any and all liens existing thereon at the time of such acquisition, so that the SWRCB's security interest in Bass Lake's assets will have priority over the lien of the Indenture Trustee.

Request:

In order to address comments from the SWRCB staff in connection with the assignment and assumption of Bass Lake's SRF Loan, California American Water requests that CPUC confirm the CPUC's approval of the assignment to, and assumption by, California American Water of Bass Lake's outstanding SRF Loan, the dedicated source of revenue, and adequate security for the SRF Loan, consistent with the Joint Request.

Tier Designation:

This advice letter is submitted pursuant to General Order No. 96-B and is designated as a Tier 3 filing.

Effective Date:

Given this is a Tier 3 filing and requires and Commission resolution, California American Water does not request a specific effective date. However, given the importance of the issues contained herein, in terms of moving forward with finalizing and fully integrating the Bass Lake system, California American Water believes this advice letter should be expedited and approved as soon as possible.

Notice and Service List:

In accordance with General Order 96-B, General Rule 4.3 and 7.2 and Water Industry Rule 4.1, a copy of this advice letter will be transmitted electronically to interested parties having requested such notification. ***Please note that this advice letter will only be distributed electronically.***

Response or Protest¹

Anyone may respond to or protest this advice letter. When submitting a response or protest, **please include the utility name and advice letter number in the subject line.**

A **response** supports the filing and may contain information that proves useful to the Commission in evaluating the advice letter. A **protest** objects to the advice letter in whole or in part and must set forth the specific grounds on which it is based. These grounds² are:

1. The utility did not properly serve or give notice of the AL;
2. The relief requested in the AL would violate statute or Commission order, or is not authorized by statute or Commission order on which the utility relies;

¹ G.O. 96-B, General Rule 7.4.1

² G.O. 96-B, General Rule 7.4.2

3. The analysis, calculations, or data in the AL contain material error or omissions;
4. The relief requested in the AL is pending before the Commission in a formal proceeding; or
5. The relief requested in the AL requires consideration in a formal hearing, or is otherwise inappropriate for the AL process; or
6. The relief requested in the AL is unjust, unreasonable, or discriminatory (provided that such a protest may not be made where it would require relitigating a prior order of the Commission.)

A protest shall provide citations or proofs where available to allow staff to properly consider the protest.

A response must be made in writing or by electronic mail and must be received by the Water Division within 20 days of the date this advice letter is filed. The address for mailing or delivering a protest is:

Tariff Unit, Water Division, 3rd floor
California Public Utilities Commission,
505 Van Ness Avenue, San Francisco, CA 94102
water_division@cpuc.ca.gov

In the same date the response or protest is submitted to the Water Division, the respondent or protestant shall send a copy by mail (or e-mail) to us, addressed to:

Email Address:

chase.grady@amwater.com

sarah.leeper@amwater.com

ca.rates@amwater.com

Mailing Address:

520 Capital Mall, Suite 630
Sacramento, CA 95814

555 Montgomery Street, Suite 816
San Francisco, CA 94111

520 Capital Mall, Suite 630
Sacramento, CA 95814

Cities and counties that need Board of Supervisors or Board of Commissioners approval to protest should inform the Water Division, within the 20-day protest period, so that a late filed protest can be entertained. The informing document should include an estimate of the date the proposed protest might be voted on.

If you have not received a reply to your protest within 10 business days, please contact Chase Grady at (916) 568-4241.

CALIFORNIA-AMERICAN WATER COMPANY

/s/ Chase Grady

Chase Grady
Associate Rates & Regulatory Analyst

NORTHERN DIVISION SERVICE LIST
CALIFORNIA-AMERICAN WATER COMPANY

BY MAIL:

Robert A. Ryan, Jr. County of Sacramento Downtown Office 700 H Street, Suite 2650 Sacramento, CA 95814	Walt Shannon 8356 Auberry Drive Sacramento, CA 95828 State of California, Dept. of Health Services Safe Drinking Water State Rev Fund Program Attn: Chief, Safe Drinking Water 1616 Capitol Mall, MS 7418 Post Office Box 997413 Sacramento, CA 95899-7413	Carol Smith 6241 Cavan Drive, 3 Citrus Heights, CA 95621 Mark Norris, County Clerk-Recorder County of Sacramento 600 8th Street Sacramento, CA 95814
Steven J. Thompson 5224 Altana Way Sacramento, CA 95841	Fruitridge Vista Water Company P.O. Box 959 Sacramento, CA 95812	Robert C. Baptiste 9397 Tucumcari Way Sacramento, CA 95827-1045
Anthony La Bouff, County Counsel Placer County 175 Fulweiler Avenue Auburn, CA 95603	Rio Linda Water District 730 L Street Rio Linda, CA 95673	State of California, Dept. of Water Resources Safe Drinking Water Office, Room 804 Attn: Program Manager Post Office Box 942836 Sacramento, CA 94236-0001
Sacramento County WMD 827 7th Street, Room 301 Sacramento, CA 95814	Mario Gonzalez 111 Marwest Commons circle Santa Rosa, CA 95403	California Water Service Co Redwood Valley District 14034 Armstrong Woods Rd Guerneville, CA 95446
Maria D. Duddy 2184 Teakwood Ct. Hollister, CA 95023	Penngrove/Kenwood Water Co 4984 Sonoma Hwy Santa Rosa, CA 95409	Henry Nanjo Department of General Services Office of Legal Services, MS-102 PO Box 989052 West Sacramento, CA 95798-9052
Citrus Heights Water District 6230 Sylvan Road Citrus Heights, CA 95610 rchurch@chwd.org	Edward W. O'Neill Davis Wright Tremaine LLP 505 Montgomery Street San Francisco, CA 94111-6533 City of Sacramento, Water Division 1391 35th Avenue Sacramento, CA 95822 utilities@cityofsacramento.org	Sacramento Suburban Water District 3701 Marconi Avenue, Suite 100 Sacramento, CA 95821-5303 Marvin Philo 3021 Nikol Street Sacramento, CA 95826 mhphilo@aol.com
Hilary Straus, General Manager Citrus Heights Water District 6230 Sylvan Road Citrus Heights, CA 95610 hstraus@chwd.org	Amy Van, City Clerk City of Citrus Heights 6237 Fountain Square Drive Citrus Heights, CA 95621 avan@citrusheights.net	Jim McCauley, Clerk-Recorder Placer County 2954 Richardson Drive Auburn, CA 95603 skasza@placer.ca.gov

BY E-MAIL:

NORTHERN DIVISION SERVICE LIST
CALIFORNIA-AMERICAN WATER COMPANY

Florin County Water District
P.O. Box 292055
Sacramento, CA 95829
fcwd@sbcglobal.net

Richard Rauschmeier
California Public Utilities Commission
DRA - Water Branch, Rm 4209
505 Van Ness Ave
San Francisco, CA 94102
rra@cpuc.ca.gov

Susan Sommers
City Of Petaluma
P.O. Box 61
Petaluma, CA 94953
suesimmons@ci.petaluma.ca.us

Madera LAFCO
2037 West Cleveland Avenue
Madera, CA 93637
etmeasurement@maderacounty.com

Yvonne Zepeda, City Clerk
City of Isleton
P.O. Box 716
Isleton, CA 95641
Yvonne.zepeda@cityofisleton.com

Office of Ratepayer Advocates
505 Van Ness Avenue
San Francisco, CA 94102
California Public Utilities Commission
dra_water_al@cpuc.ca.gov

Dana McRae, County Counsel
County of Santa Cruz
701 Ocean Street, Room 505
Santa Cruz, CA 95060
dana.mcrae@co.santa-cruz.ca.us

Deborah Mahler, Deputy Director
Madera Fire District
200 West Fourth Street
Madera, CA 93637
deborah.mahler@maderacounty.com

Placer County Water Agency
144 Ferguson Road
Auburn, CA 95603
Customer Service Department
customerservices@pcwa.net

Heather Hernandez
Sacramento Suburban Water District
3701 Marconi Avenue, Suite 100
Sacramento, CA 95821-5303
HHernandez@sswd.org

Tim & Sue Madura
411 Firelight Drive
Santa Rosa, CA 95403
suemadura@sbcglobal.net

CALIFORNIA-AMERICAN WATER COMPANY
ADVICE LETTER 1446
SUPPORTING DOCUMENTATION FOR STAFF

Confirming Cal Ams Assumption of Bass Lake SRF Loan
TABLE OF CONTENTS

	<u>Page</u>
Joint Request Letter	1-1



April 18, 2024

California-American Water - Sacramento
4701 Beloit Drive
Sacramento, CA 95838
www.amwater.com

BY EMAIL

State Water Resources Control Board
1101 I Street, 24th Floor
Sacramento, CA 95814

Ladies and Gentlemen:

As you may know, California-American Water Company Inc. ("**Cal-Am**," a California corporation and subsidiary of American Water Works Company, the largest publicly traded water utility in the United States) is under contract (such contract, the "**APA**") to purchase substantially all of the water utility assets of Bass Lake Water Co., a California corporation operating in the County of Madera ("**Bass Lake**"). This acquisition was approved by the California Public Utilities Commission in Decision 23-04-007, dated April 6, 2023 (the "**Decision**"). Bass Lake has an outstanding State Revolving Fund Loan ("**SRF Loan**") that Bass Lake and Cal-Am through this letter jointly request be assigned to, and assumed by, Cal-Am.

The funding agreement for the SRF Loan is Construction Loan Agreement No. SWRCB000000000D1902006, executed on October 8, 2019 (as amended through the date hereof, the "**Loan Agreement**"), by and between the State Water Resources Control Board ("**State Water Board**") and Bass Lake, with respect to Project No. 2010003-003C (Willow Creek Surface Water Treatment Plant).

As noted above, this is an asset purchase whereby Cal-Am will purchase substantially all of the water utility assets of Bass Lake. Upon completion of the acquisition, Cal-Am will consolidate the Bass Lake system into its Northern Division for operational purposes, expand its Certificate of Public Convenience and Necessity ("**CPCN**") to include the ownership and operation of the Bass Lake system, and integrate Bass Lake into Cal-Am's Northern and Corporate Office for ratemaking purposes.

Article C.3.4 of the Loan Agreement permits the assignment of the Loan Agreement with the consent of the State Water Board in the form of an amendment to the Loan Agreement. In addition to the State Water Board's consent, Cal-Am will require the following amendments to the Loan Agreement as a condition to its assumption of the SRF Loan:

1. Section 4 of the Loan Agreement must be amended to include contact information for Cal-Am's notice parties;

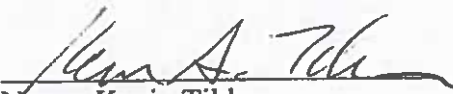
2. References in the Loan Agreement to "additional debt tests" must be deleted;
3. Clause (k) of the Events of Default defined in Section 5 of the Loan Agreement must be modified to delete the word "enterprise" and insert instead the phrase "ability to operate the System";
4. The defined term "Maximum Annual Debt Service" in Section 5 must be deleted;
5. In Section 5, the defined terms "Material Obligation," "Net Revenues," "Obligation," "Revenues," "System," "System Obligation," and "Water Rate Surcharge" must be revised to apply only to the Bass Lake system and Bass Lake assets being acquired by Cal-Am;
6. The defined term "System" in Section 5 must use the same definition as is used in the APA;
7. In Exhibit B, Section B.2.5 must be revised to limit the sources for Payments to Net Revenues and Water Rate Surcharge;
8. In Exhibit B, Section B.2.7 must be revised to delete clauses (i) (other than with respect to the Water Rate Surcharge) and (iv) thereof;
9. In Exhibit B, Section B.3(a) must be revised to delete the phrase beginning with "and must ensure that Net Revenues"
10. In Exhibit B, Sections B.4 and B.5 must be deleted; and
11. Exhibit D, clauses 1 and 2 of the Special Financial Conditions must be revised along the lines described above, and clause 3 must be deleted.

As Cal-Am has previously disclosed to the State Water Board, Cal-Am is required, under the terms of its First Mortgage Bond Indenture, dated as of October 1, 1969, as amended and supplemented to date (the "**Indenture**"), to pledge substantially all of its assets to First Union National Bank, as successor in interest to Bank of America National Trust and Savings Association, as trustee under the Indenture (the "**Indenture Trustee**"), in order to secure the payment of the principal and interest on Cal-Am's publicly traded bonds. The Indenture specifically excepts cash on hand and in bank accounts from its lien, so that the Indenture's security interest will not attach to the deposit accounts required by the Loan Agreement. The Indenture also stipulates that after-acquired property of Cal-Am (such as Bass Lake's assets) will remain subject to any and all liens existing thereon at the time of such acquisition, so that the State Water Board's security interest in Bass Lake's assets will have priority over the lien of the Indenture Trustee.

Subject to the foregoing, Cal-Am and Bass Lake request the State Water Board to approve the assumption by Cal-Am of Bass Lake's rights and obligations under the Loan Agreement, including the obligations under Section C.3.25 of the Loan Agreement to operate the Project (as defined in the Loan Agreement) over its reasonably expected life, and the amendments to the Loan Agreement as set forth above. Also, Cal-Am agrees (to the extent necessary) to enter into a Fiscal Services and Deposit Account Control Agreement and a Deposit Account Maintenance Agreement for the deposit account(s) required by the Loan Agreement, in each case using a form agreed to by the State Water Board.

Very truly yours

California-American Water Company

By: 
Name: Kevin Tilden
Title: President

Bass Lake Water Co.

By: 
Name: STEPHEN R. WELCH
Title: PRESIDENT